PUBLIC POWER COUNCIL
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Sent Via Electronic Mail

February 23, 2024

John Hairston
Administrator
Bonneville Power Administration

RE: PPC Support for BPA's Proposed Timeline and Continued Pursuit of Markets+ Participation

Dear Administrator Hairston:

First, we would like to express our appreciation to you and your team for the leadership BPA has demonstrated in the formation and exploration of organized markets in the West. In 2022, the Public Power Council (PPC) Executive Committee members issued an open letter to the region encouraging parties, and BPA specifically, to take up the challenge of developing two day-ahead market options for the West. We also asked BPA to take a lead role in developing these market options, advocating for market design and governance that would facilitate BPA's participation in a day-ahead market and ensure benefits for its preference customers. We are grateful to you and your staff for taking this request to heart. We applaud the active role that BPA has taken in shaping organized markets in the West, which we encourage the agency to continue with vigor.

BPA's ability to inform and influence the development of Western markets relies on the agency's ability to make timely decisions and communicate those clearly to the region. With that in mind, we strongly support BPA's proposed timeline in its day-ahead market decision process, including the issuing of a "leaning" on the agency's potential market participation and preferred market this April. As described in more detail below, PPC supports a BPA leaning indicating a preference for SPP's Markets+ based on the potential opportunities that market provides. This preference is informed by PPC's extensive evaluation of market governance, design, potential footprint, and compatibility with BPA's statutes as discussed in more detail below.

BPA Participation in an Organized Day Ahead Market Should be Consistent with the Agency's Historic Mission

BPA has a deep rooted and statutorily-based historic mission to provide an adequate, efficient, economical, and reliable power supply to Northwest ratepayers, with preference rights to that delivered power for consumer owned utilities. BPA has served this purpose since its creation, and in doing so, has encouraged the development of over 100 consumer owned utilities in the Northwest who put the interests of their communities and customers first – focusing on providing reliable, affordable electric service over financial gain. While PPC sees potential opportunity related to participation in an organized day ahead market, such participation will need to be pursued carefully to ensure BPA continues to serve its intended purposes.

In order to protect Northwest ratepayers and ensure that BPA continues to serve its historical purpose, the market must, at a minimum:

1. Maintain or enhance grid reliability.
2. Preserve the statutory rights of the preference customers to cost-based Federal service.
3. Include a strong and effective independent governance structure which does not unduly discriminate in favor or against specific market participants.

During BPA's decision process, some entities have pushed the agency to take actions that they describe as being in the interest of the broader West. The agency should not be pressured to compromise its historic purpose or statutory obligations to Northwest consumer owned utilities to advance the goals of others in the West. The customers of PPC member utilities are relying on BPA to continue to serve its historical purpose of ensuring they have access to reliable, low-cost electric service.

PPC Supports BPA's Continued Pursuit of SPP Markets+ Development

Currently, the Southwest Power Pool (SPP) Markets+ offering is PPC's preferred day-ahead market option, and we support BPA making a similar declaration in its April leaning. While information is still evolving, the majority of criteria that PPC has evaluated supports continued pursuit of BPA's participation in Markets+.

SPP Markets+ has an equitable, inclusive, representative, and independent governance structure. It includes committees comprised of market participants and stakeholders which has resulted in a high-level of engagement in the market's design. In Markets+, participants and stakeholders determine what proposals advance to the decision-makers, not SPP staff. Decisions are also made by a "panel" of independent members who have no responsibility or obligations to any group of participants over another. This decision-making process ensures all market stakeholders have a voice in what policies are explored, developed, and ultimately implemented.

The Markets+ market design includes several elements which will help BPA continue to serve its historic mission and return value to Northwest ratepayers for the federal assets they have financed through BPA's rates. First, Markets+ includes price formation policies that will more adequately compensate BPA (and all suppliers) for flexible and reliable generation made available to the market – particularly in times of scarcity. Secondly, the market will also include the capability to "attribute" generation to specific loads. PPC sees this as a useful tool for meeting BPA's statutory obligation to serve preference customers from the federal system. These and other tools included in Markets+ will also ensure that BPA customers can claim the environmental attributes of the low carbon federal system. This will be critical for allowing PPC members to meet community driven and state mandated carbon reduction goals. Additionally, Markets+ requires participation in the Western Resource Adequacy Program (WRAP). This means that all market participants will be subject to a common Resource Adequacy program, ensuring that all participants are contributing to the reliability of the market footprint equitably.

Throughout BPA's decision process some entities have repeatedly focused on the importance of the market footprint. We currently anticipate Markets+ participation will represent a footprint sufficient to create benefits for BPA. It is possible that friction between two markets in the West could have a modest impact on the total benefits created by a Western market. However, these impacts must be weighed in the context of other important decision factors, including the significant risk that Northwest entities face by subjecting themselves to market rules if those rules do not provide equitable treatment for all participants. Additionally, the market footprint may change over time and is unlikely to match any of the specific scenarios modeled in the Western Markets Exploratory Group (WMEG) study. PPC will continue to evaluate the impacts of the markets' anticipated footprints on our recommendation. At this time, PPC's evaluation is that it is more important to focus on elements such as market design and governance.

Concerns With a Multiple Market Footprint Can and Are Being Addressed

Some participants in the process have discussed "seams" between different markets as if their very existence is enough to demonstrate that a single-market footprint is the superior option. Seams do have the potential to reduce market efficiency, but they also exist today in multiple areas (not just market to market, but different Resource Adequacy programs, different carbon regulations, etc.) and will continue to exist into the future. There are times where entities or groups of entities deem it necessary to adopt different rules from their neighbors in order to achieve their specific objectives. Carbon regulations are a great example of where we have seen this occur. States could easily adopt policies that match neighboring states, but instead most states have chosen to pursue unique rules which best fit the needs of their constituents. The same principle applies here.

The efficiency loss that additional seams create can be outweighed by the benefits of superior market design and governance. This is clearly demonstrated by the existence of multiple ISOs and RTOs in other parts of the country. Tools exist to manage these relationships in these other regions and can be developed to reduce the impact of market-to-market seams.

There will be large incentives for any markets that form in the West to work together and mitigate seams issues to the greatest extent possible, so as to facilitate continued trade. We anticipate significant amounts of trading will continue to occur on a longer-term basis outside of the day-ahead market, which could also mitigate the impacts of market-to-market seams. Multiple studies evaluating different market footprints have suggested that seams have the greatest potential to impact entities in California, who rely on imports of Northwest resources at a low price. This should only work to create an even greater incentive for the existing CAISO market to work together with Markets+ to ensure that trading can continue.

Markets+ Has Been Developed to Support Carbon Reduction Consistent with State and Federal Goals

In some cases, proponents of a single-market seem to suggest that is the only option to help achieve state and federal carbon reduction goals. This is despite SPP integrating a large amount of renewable generation in its Eastern RTO and the inclusion of a carbon accounting methodology to facilitate compliance with Washington carbon policies in Markets+, both of which contradict such an assertion. The Markets+ greenhouse gas accounting methodology has been developed in close collaboration with state agencies to ensure Washington entities can comply with regulations while experiencing cost savings through more economic generation dispatch.

In addition to these existing greenhouse gas policies, Markets+ is working towards being the first market to incorporate non-pricing carbon policies into its market structure. This would further facilitate participants in meeting state and local carbon reduction policies and goals.

Importance of Governance & Concerns with CAISO Structure

While PPC's views on organized markets have evolved in recent years, there is one area where that view has not changed, and that is around the importance of an independent governance structure in an organized market. Participation in an organized market requires publicly owned utilities and BPA to give up limited aspects of local control by agreeing to be bound by the rules of the market. In exchange for ceding some loss of local control, public power utilities must be able to assure their communities that market rules are designed in a manner that will afford public power utilities and all other market participants equal, fair, and consistent treatment.

Current California law stipulates several areas that keep CAISO's mission and operation tied with the interests of California. <u>First, CAISO's corporate status is tied to oversight from the state of Califiornia and thus the CAISO Board of Governors can neither irrevocably delegate authority nor allow another entity to unilaterally make decisions on market policies.</u> Additionally, the CAISO Board of Governors is appointed by the California Governor and confirmed by the California Senate.

The independence of the CAISO as the operator of a multistate market is further confused by CAISO's dual roles. The CAISO functions both as a market operator and as a participant Balancing Authority Area (BAA) in the EIM and EDAM markets. At times there is a lack of transparency about which role CAISO is serving when taking certain actions. This only adds to concerns about equity among market participants.

These circumstances fall well short of PPC's expectations for a governance structure that treats all market participants equally.

PPC is aware of ongoing efforts to address these governance concerns, but after two failed attempts at legislative change in less than a decade, we do not support waiting for the results of this latest effort before taking actions in the interests of Northwest ratepayers.

Ongoing Concerns with Aspects of CAISO's EDAM Market Design

In addition to the problems with CAISO's governance, we also have concerns about several aspects of the EDAM market design and the equitable allocation of market benefits. For example, PPC and others have continued to share concerns about how congestion rent is allocated between the CAISO BAA and other BAAs in EIM and EDAM. During the recent winter event in the Northwest, Northwest load imported resources largely coming from the Southwest and wheeling through CAISO. CAISO's congestion policies resulted in over $100M of congestion revenues being collected by the CAISO BAA, despite most of the generation serving the Northwest coming from outside California. The policy creating this result is explicitly maintained in the CAISO EDAM.

Additionally, PPC analysis indicates that CAISO pricing policies depress market prices as compared to policies adopted in other markets. This means that the federal generating facilities funded by PPC members would receive lower compensation for their generation, thus increasing the costs borne by PPC members for operating those facilities. A study co-funded by PPC showed the potential for CAISO's pricing policies to reduce revenues for Northwest generators selling into the CAISO BAA by $100-$200M per year. Not only does this type of price suppression result in inequities between participants, but it can also fail to send accurate price signals regarding the value of flexible generation in times of scarcity.

Another example of PPC's concerns with the CAISO market is its "wheeling policy." In response to CAISO's 2020 summer blackouts, CAISO implemented policies that limit the ability of out-of-region generators and loads to reliably "wheel" across the CAISO BAA. This new policy has created a significant risk that generation wheeling across the CAISO BAA to other regions will instead be used to serve load in the CAISO BAA in times of tight grid conditions. This policy, which was heavily criticized by non-California parties, demonstrates the California centric nature of the CAISO decision making process.

The examples above demonstrate why governance is so important to PPC. Many market design issues will shift large amounts of benefits between participants and could potentially determine who receives reliable service.

BPA Should Commit to Addressing Certain Issues with its Preference Customers Prior to Its Final Decision

While PPC is supportive of BPA issuing a "leaning" based on current information, more discussion is required in advance of a final decision. PPC staff and members are committed to working with BPA in the coming months to perform a more robust analysis of BPA's prospective participation, including how participation would impact the agency's power products. PPC is supporting the proposed timeline for BPA's process with the understanding that critical issues to customers will be addressed prior to the agency's final day-ahead market decision.

Between its leaning in April and issuing a final decision later this year, BPA should work with preference customers to further vet issues in several areas (regardless of which market it pursues):

- BPA's business case related to market participation.
- The compatibility of BPA Provider Of Choice products and markets.
- Legal analysis regarding BPA statutes and organized market participation.
- Additional vetting of the "PPC value lenses" and impacts to preference customers.

Gaining a better understanding of these issues will be crucial for PPC's continued support of BPA's prospective participation in a day-ahead market.

Conclusion

The PPC Market Development Committee again thanks you and your team for your dedication to this issue. We look forward to working together closely to address outstanding questions, further developing the case for BPA's participation in a day-ahead market.

Regards,

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